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INVESTMENT ANALYSIS OF THE COMMON STOCK OF THE CANADIAN PACIFIC RAILWAY[1]

GILBERT R. HORNE

II.

The Unfavorable Factors and General Conclusion

THE previous article on the Canadian Pacific was an attempt to bring out the favorable aspects of investment in the common stock of the company. In the following discussion, the unfavorable side will be exhibited and a general conclusion reached. We will discuss the unfavorable aspects of the investment risk under the same headings that were used in the first article.

The General Business Risk

While the Canadian Pacific has the advantage of a public utility, it must be noted that a railway suffers from the common disadvantages of utilities, viz., governmental regulation and a large fixed capital investment. The existence of the Canadian Pacific alongside an equally large public-owned line, the Canadian National, may be viewed as unfavorable, since the government may be led to favor the public-owned railroad. Within the past few months, the Board of Railway Commissioners refused to grant the Canadian Pacific Railway's request for an extension into a new mining district, while the Canadian National had been permitted to build into the same area.

The re-election of President Roosevelt points to further attempts to get ratification of the treaty with Canada concerning the St. Lawrence Deep Sea Waterway. While the obstacles seem to us too high for the scheme to hurdle, the possibility must be taken into account. If the project did go through, the Canadian Pacific would probably have to cut its rates to the east in order to compete, and a loss of revenue would undoubtedly ensue.

The production and income of the western provinces have a great effect upon the road. The depression in agriculture since 1928 has wreaked havoc with the company's earnings. The post-war problem of agricultural overproduction, with other competitive agricultural

[1]Mr. Horne's first article, presenting the favourable factors and eight tables of pertinent figures, appeared in the issue for Autumn, 1936.

countries unwilling to relinquish their foreign markets to Canadian producers, the growth of economic nationalism as evidenced in tariff barriers, quota restrictions, attempts to gain self-sufficiency by nations, and the political manifestation—fascism; all these things make the export situation rather foreboding. Continued expansion of Canada's export trade, exploitation of her mining resources, and general industrial expansion are essential to the success of the Canadian Pacific Railroad. The near future is rather uncertain on this score; only in so far as we can count on a recovery of world trade, and a concomitant recovery of Canada's trade, will the Canadian Pacific develop earning power again. While recent efforts at negotiating reciprocal trade pacts have brought useful results, it is difficult not to be pessimistic on the probability of a great expansion of world trade again in a world of nations intent on applying economic policies which are replicas of those of sixteenth and seventeenth century mercantilism.[1]

[1]For a more optimistic view of the future of international trade, see Ralph Freeman and C. E. Griffin in the round table on that subject at the meeting of the American Economic Association, December, 1934, summarized in March supplement, 1935, *American Economic Review*. The optimistic opinion seems to be based on an assumption that pre-war political and economic conditions are "normal", and those of the present but temporary and fleeting and therefore nothing to be pessimistic about.

The Individual Business Risk

Traffic Analysis

While we found considerable diversification in the traffic of the road, if reference is made again to Table I. (see page 18, Autumn *Quarterly*), it will be found that there is a rather great dependence on the products of agriculture and the products of mines. The combined percentage of total freight for these is between 63 and 70 per cent. Wheat generally makes up about 26 per cent. of the total freight tonnage of the road.

From the point of view of quality of freight, we find the Canadian Pacific has over 30 per cent. of its tonnage in mine products, which are low-grade, not producing much revenue in relation to bulk. Anywhere from 30 to 40 per cent. of tonnage carried is agricultural products, which are about medium-grade. The high-grade revenue-producing tonnage — merchandise L. C. L., and manufactured products — is only a little over 20 per cent. of the total tonnage. It will be noted by reference to Table I. (see page 18, Autumn *Quarterly*), that, in contrast to the Canadian National, the Canadian Pacific is more dependent on the medium-grade agricultural products. And the latter company has less manufactured products in proportion to all its traffic than has the government line. This again demonstrates that the fate of Canadian

agriculture is very important to the Canadian Pacific. The best year of the company, it will be noted, was in 1928, when wheat production reached a peak.

Income Analysis

Gross operating revenues (see Table III., pages 19-20, Autumn *Quarterly*), had experienced a decline from 1928 of some 50 per cent. by 1933. While there has been some rise in that item since 1933, the 1935 figures show that gross revenues are still only about 43 per cent. of what they were in 1928.

Special Income has shown a serious decline, the 1933 figure being overstated because of failure to charge depreciation on steamships against income for that year. By 1932, gross income (net operating income plus special income) was only 38 per cent. of what it was in 1928. The 1935 figure shows that gross income is still only slightly more than 40 per cent. of that in 1928.

From Table III., it will be seen that fixed charges have risen considerably in the depression (more than 50 per cent.). This is unfavorable as it has resulted in an increase in the prior charges on income. In 1935, the percentage of fixed charges to gross operating revenue was 19 in contrast to 7 per cent. in 1928, and 21 per cent. in 1933.

Finally, net income shows a great decline, and, at the low point in 1932, had fallen to about ½ of one per cent. of what it was in 1928. By 1935, it was about 6 per cent. of the 1928 figure.

Validity of the Figure for Income

Thus far in our analysis we have accepted the figures given us for net income. It now behooves us to apply a few tests as to the validity of the latter. Companies are not always so meticulous with respect to such items as depreciation and maintenance as they are with expenses requiring actual out-of-pocket cash outlay. The necessity for deductions on account of maintenance exists whether the actual cash disbursement therefor is made in any particular year or

TABLE IX.
COMPARATIVE OPERATING EXPENSE OF THE CANADIAN PACIFIC, 1928-1935, INCLUSIVE (UNIT = $1,000)

	1928	1929	1930	1931	1932	1933	1934	1935
Transportation	75,052	71,235	64,051	54,775	50,620	43,633	45,592	47,452
Maintenance of Way and Structures	35,812	33,325	25,043	21,161	19,759	17,613	18,890	19,726
Maintenance of Equipment	43,493	39,854	29,934	19,660	17,360	17,324	20,428	22,923
Traffic Expenses.......	9,884	9,922	10,150	9,872	7,409	6,688	6,540	6,906
General Expenses (includ. Taxes)	9,771	8,838	7,850	7,569	7,467	7,140	8,706	9,233
Miscellaneous Exp...	3,333	3,412	5,624	3,617	1,230	1,009	1,003	1,040
	177,345	166,586	142,652	116,655	103,847	93,408	101,159	107,280

Source: Standard Statistics Company Corporation Records.

not. It is reasonable to judge that but a small proportion of maintenance varies directly with the amount of traffic.

In Table IX. appear the figures for operating expenses under the various sub-headings. Transportation expense, as would be expected, fell from 1928 to 1932, and, with business recovery, has risen. This item tends to vary more or less directly with the amount of business the railway has. The figures for maintenance of equipment and for maintenance of way and structures should show relatively small fluctuation from year to year, unless retirement sale of equipment and lines takes place. Here, we note rather wide fluctuations: in 1928, the figure for maintenance of equipment was over $35,000,000, and for maintenance of way and structures more than $43,000,000; by 1932, these charges had been cut to about $20,000,000 and $17,000,000 respectively. Since the latter year, charges on these accounts have increased. It appears that, at least since 1929, maintenance has been treated as an expense only when the actual cash outlay has taken place. We find, as earnings have increased, the charges for maintenance have risen somewhat. Regardless of whether the maintenance is actually carried on in any particular year, we, as investors, are interested in proper charges being made on this account. If the property is not maintained now—greater costs will be incurred in later years.

Assuming, therefore, the discussion in the last paragraph to be correct, the operating income has been overstated ever since the depression began. Total maintenance charges for 1928 were almost $80,000,000. If we assume that the latter is a normal figure for annual cost of maintaining way and equipment, the figure for operating expenses for 1934 (of $101,000,000) is understated by almost $40,000,000. Expenditures for maintenance for the four years, 1924 to 1927, inclusive, average $63,000,000, so, giving the benefit of doubt to the published figures, the net operating income account is overstated by at least $23,000,000. If the latter item had been deducted throughout the depression, the company would have shown no operating income for several years, including 1935. Instead of a net income of almost $3,000,000 for 1935, a net loss of about $20,000,000 would have been shown.

It is to be noted (see Table II., Autumn *Quarterly*, page 19) that the operating ratio in 1935 is above what it was in 1933. The increase in maintenance charges is undoubtedly responsible for this: if charges comparable to the average for 1924 to 1927, inclusive, had been made for maintenance, the operating

ratio would not have been much lower than that of the Canadian National, as derived from published sources.[2]

As noted in the footnote to Table III. (pages 19-20, Autumn *Quarterly*), the special income account approximately $4,000,000 charge to surplus for depreciation on steamships for 1933 were deducted from the income of that year, the result would have been, instead of $1.3 million net income, a considerable loss.

TABLE X.

NUMBER OF TIMES THE FIXED CHARGES AND DIVIDENDS ON PREFERRED STOCK OF THE CANADIAN PACIFIC RAILROAD WERE EARNED, 1928-1935, INCLUSIVE.

Year	Fixed Charges Including Rentals	Interest on Funded Debt	Fixed Charges and Preferred Stock Dividends
1928	4.16	4.46	3.28
1929	3.57	3.76	2.77
1930	3.00	3.13	2.38
1931	1.63	1.69	1.31
1932	1.01	1.01	0.82
1933	1.05	1.06	0.73
1934	1.11[1]	1.13[1]	0.91[1]
1935	1.12[1]	1.14[1]	0.91[1]

[1]Adjusted for depreciation on steamships, which was subtracted from surplus beginning in 1933.

Source: Standard Statistics Service Corporation Records.

has been inflated in the figures given by the company. Starting with 1933, the depreciation on steamships was charged to surplus, instead of to profit and loss for the year. While this item has been corrected since then, the 1933 figure remains uncorrected. If the

[2]It is true that many United States roads follow the policy of varying maintenance charges with earnings. But, from the point of view of an investor, we must critically examine such a policy. Net income available for dividends can hardly be expected to rise very rapidly in the future if a company has postponed its maintenance outlay, and cash will hardly be on hand for dividends if large expenditures have to be made for repairs and renewals.

Fortunately gross revenues are increasing, and special income is improving—but postponed maintenance will tend to absorb most of any gains; unless the company chooses to dissipate its capital, which is unlikely. So the prospect of the Canadian Pacific showing real profits, comparable to those of 1928, would seem remote in the near future, and the stockholder must needs be without dividends in this period.

Financial Risk

From Table X. it will be seen that the company has failed to do

much more than barely earn its fixed charges since 1931. If we adjust the figures for 1933 for the depreciation deducted from surplus, we find in that year the company did not earn its fixed charges. And, if consistent charges had been made for maintenance after 1929, there would have been no question that these charges were not earned after 1930. The small working capital position, and the borrowing that took place under Dominion guarantee from chartered banks in the depression, would tend to substantiate our position.

price of the stock was hit in 1932 at $7.25. The high point since the split was $52.50 in 1930. The fluctuation in the price of the stock is rather wide and means that the time hazard to the investor, who may wish to dispose of his holdings, is great.

Although there have been no earnings available for common stock since 1931, the stock is selling at $13.25 per share. This market value compares with a loss of $0.20 a share on the operations of 1935 (after deduction for fixed charges, and for prior claim for dividends of the preferred stockholders). The present market price, then, can only be justified if one assumes a great growth of earning-power in the immediate future.

TABLE XI.

EARNINGS PER SHARE ON THE COMMON STOCK OF THE CANADIAN PACIFIC RAILROAD[1]

1928	$3.75	1932	$d0.39
1929	2.79	1933	d0.60
1930	2.49	1934	d0.21
1931	0.63	1935	d0.20

[1]Adjusted to reflect issuance in 1930 of 4 new $25 par shares for each $100 par share outstanding.
dDeficit.
Source: Standard Statistics Company Corporation Records.

In Table XI. are presented the earnings per share of common stock. The best figure for many years prior to that date was that for 1928. Since then there has been a decline until 1932, when a deficit appears. Since 1933 this deficit has been declining, and it is to be hoped the near future will see a recovery of earnings on common.

The market price of the common stock of the Canadian Pacific, as of December 1, 1936, was $13.25 per share. The low point in the market

General Conclusion

On the score of general business risk, it was observed that the competition of motor trucks could be regarded as a temporary phenomenon, in view of the fact that regulation, taxation, and the elimination of fly-by-night companies are in the

offing. Railways, as Professor Jackman is constantly at pains to point out, are still the backbone of the transportation system.

A possibly unfavorable political factor was seen in the existence of an unprofitable government road alongside the privately-owned one. On the other hand, the better earnings record of the Canadian Pacific is a strong offset, and tends to solidify private ownership of the system. The possible building of the St. Lawrence Deep Sea Waterway was considered as subject to too many obstacles to be feared as a competitive factor in the predictable future.

We have noted that the fortunes of the Canadian Pacific Railway are largely those of the Canadian economy as a whole. The curve of the Dominion's economic growth has shown a steady upward trend since the 1890's, and the unexploited natural resources of the country would lead one to expect a continuation of this trend. But temporarily the expansion and development of Canada has been slowed up. Whether this is to be a mere temporary problem or not depends upon the future of international trade. For Canada, the wheat problem is of particular importance here; and we have already noted the importance of this commodity to the Canadian Pacific. World overproduction of wheat has been a reality.[3] The World political situation, with high tariffs and many countries consciously striving after "autarchy," is another unfavorable factor. The reduction in immigration to Canada also may be considered as a sign that the secular growth of the Canadian economy has been slowing up. In so far as past trends have any significance for the future, however, a resumption of growth for the country should be under way, and prosperity for the latter means prosperity for the Canadian Pacific.

The company's properties are in the areas that are the source of the best freight revenue in Canada. The record of management, and the progressiveness of the latter are also favorable factors.

The traffic analysis exhibits a fair degree of diversification. But the fortunes of the road appear particularly affected by the economic condition of the Canadian agricultural provinces, which in turn reflect the state of the wheat crop, price conditions, and the rate of flow of this commodity into the world market.

Earnings have proved sufficient

[3]The fall and winter of 1936 brought further evidences of a continuing recovery in Canada's foreign trade, including a notable expansion of wheat and other agricultural exports, all of which will assist the Canadian Pacific in recovering its earning power.

to cover fixed charges. But, since 1932 no dividends have been paid on the preferred or common stocks. Earnings have not been sufficient since 1931 to cover the dividend requirement on the preferred stock. While an improvement of earnings has been evident since 1932, we find the company has not much more than earned its fixed charges since 1930. The gross revenue for the first five months of 1936, compared with that for the first five months of 1935, reveal a considerable increase, as do the figures for net operating income. These facts would lead us to believe that the year 1936 may result, on the basis of the figures for the first five months, in such a recovery of earnings that the preferred stock dividend will be earned, and perhaps some small amount on the common stock.

The validity of the figure given for net income throughout the depression was questioned, and we discovered that it was apparently over-stated. Maintenance charges have been much less since 1930 than before. Also, we found that in the worst years of the depression the company adopted the practice of charging depreciation on one of the items (steamship revenue), which was a source of special income, to surplus. Adjustment of the net income figure for these two items would mean the company would have a deficit rather than a net income every year since 1930. The prospect is that this deficit, resulting from the application of our rough adjustment, will not be absorbed by earnings by the end of 1936. Incidentally, if the maintenance charges had remained relatively constant throughout the depression, we should have discovered that the company was not earning its fixed charges. The latter view is substantiated by the fact that the company's cash was low all through the poor years and that several large short-term bank loans had to be negotiated, in spite of the statement showing that fixed charges were being earned. The fact that the company varies its charges for maintenance points to the conclusion that any large increase in earnings in the near future will be absorbed by increased charges to maintenance.

The Canadian Pacific Railroad presents a favorable picture, as far as the relation of funded debt to total capitalization is concerned. The percentage is relatively low for a railroad. Of the funded debt, but a small amount is secured by actual claims on the rolling stock or the line. Thus, the essential to solvency and to the continuing of operations percentage of the fixed charges is relatively small. The company also has a brilliant dividend record ever since its organization, with the exception of the years since 1932.

The book value of the common stock is rather high in relation to its market price.[4] There is, however, a loss of $0.20 a share for 1935. The prospect so far for 1936 was suggested to be slight per share earnings for the year. While business in Canada is improving, however, it must climb considerably higher to produce a volume of traffic for this system proportionate to the increased capital investment made in the past decade to expand and improve the properties. And, as was pointed out above, the necessity for increased maintenance outlays as business recovers, to put into shape equipment neglected during the depression, will cut into the rising revenues. The payment of cash for maintenance will reduce the working capital position of the company, still further postponing dividends.

In general, we must regard the common stock of the Canadian Pacific Railways as speculative for the conservative investor. The heavy capitalization of the company and the failure to charge off maintenance (that did not involve actual cash outlay) as an expense every year lead us to believe that there will be no dividends, and but small earnings on this stock for some years into the future. The person who buys now receives no income, and must put his faith in the coming of a great recovery of world trade; and such an individual must have faith in the absorption of world agricultural surpluses finally providing Canada with a large market again. He must trust in the resumption of the 1912 to 1930 trends in the Canadian economy.

When one observes the present tangled world political and economic conditions it is hard to question the view that the curve of growth in Canadian business will, for the next five or ten years at least, show a much smaller increment of increase from year to year.

The present market price of the stock of the Canadian Pacific is based upon a discount of the future to such an extent that it should be considered primarily by the business man who is not dependent on his income from investments for a livelihood, and who can afford to wait some years for a reasonable return on his outlay.

[4]Here, it should be pointed out that failure to provide for maintenance may mean that the fixed assets are overstated, and the true book value of the stock thus lower than that obtained from published figures.

SALE PROCEDURE FOR SMALL RETAIL STORES

WALTER A. THOMPSON

The writer wants to thank Mr. Walter Gunn, Advertising Manager for the London Free Press. Many of the ideas expressed in this article were suggested by Mr. Gunn while the sales which were the basis of this paper were in progress.

THE problem of keeping a retail stock saleable is one of the most difficult ones to be dealt with by the retail merchant. A president of a chain of Canadian stores recently made a startling statement. He said it was his belief that by honest stock-taking he could reduce the inventory value of the majority of Canadian stores by one-half. This was not intended as a blanket indictment of all retail accountants, but it illustrates well one point: the average merchant is loath to recognize that he has bought unwisely. He has, himself, been convinced that specific articles have value. He will often be prone to carry this merchandise for too long a period without taking steps to liquidate it. The result of this is a stock of semi-obsolete and off-size merchandise. The further result, if this is allowed to go on for some time, is a bankrupt merchant. One remedy for the situation is a complete and thorough cutting of prices and, in the words of the merchant himself, a "sale" is necessary.

Before proceeding further, it may be well to outline some of the more fundamental reasons for the interest in methods of running a successful sale. There are roughly six reasons for sales becoming a subject of importance during the past ten years. They are: the increasingly difficult problem of avoiding style depreciation in retail stocks; real financial difficulty on the part of merchants; declining volume; availability of distress merchandise; increasingly careful credit policies of wholesalers and manufacturers; and a realization that a properly conducted sale will not detract from store prestige.

It is not necessary to expand many of the just-mentioned points. They are taken for granted by most wide-awake merchants. The casual student of retailing, however, does not realize the force of these facts. The Bureau of Business Research at the University of Buffalo recently concluded that the average life

of a retail establishment was about five years. When one considers the large number of stores of long life, the life of the store retiring from business is exceedingly short. Many sales are simply an effort to stave off the day when an announcement will be made that another store has been forced to close. Even the merchant making regular profits often finds himself hard pressed for ready cash. This is because most merchants are anxious to present as full a showing of goods as possible, or want improvements which frequently take all available cash. At any rate, many fail to take cash discounts. Very often, then, merchants will say in their advertisements that they must have cash immediately. This is unfortunate, for in the first place it is often true, and in the second place the average consumer refuses to believe it.

There are numerous examples of consumers failing to appreciate real values offered by merchants. Recently a prominent store executive decided to retire from business. His first act was simply to re-mark his merchandise at very low prices. The net result was a smaller dollar volume and about the same unit sales. Fortunately, he was able to receive expert assistance at an early date, and he finally was able to liquidate in a short time with a minimum loss.

Before getting into the details of the proper running of a general sale, it is well to point out that a sale can be run without undue loss of prestige. Here the retail merchant generally realizes the necessity of keeping at all times the confidence of the consumer. In these days of national advertising and brand preference on the part of the consumer, the retail merchant still sells many items that are made by little-known manufacturers. It is still necessary, therefore, for the buyer to have great confidence in the integrity of the retail seller. It is to this individual that the buyer must look for any adjustments. The fear that there will be a loss of this necessary ingredient to retail store success is the reason that many have failed to put emphasis on store-wide sales. This idea is just as dangerous as the belief that sales should be used frequently. The point to be emphasized at this place is that a properly timed and executed sale has little if any adverse effect upon store prestige.

Minimizing Need for Drastic Mark-Downs During Sales

One disheartening phase of attempting to move a large amount of merchandise in a short period is the need for large mark-downs in price. While it is impossible to avoid this completely, much can be done to keep such reductions from reaching too large propor-

tions. Careful buying, simple methods of watching stocks before buying, dating of all price tags, classification of all stocks at inventory time by age, small markdowns of slow-moving merchandise while the season is still on, and consciousness that the store must not offer unwanted merchandise, all contribute to minimum markdowns. Several papers would be required to expand on this phase of retail store management. It is sufficient to say that many of the sadder sides of the "big sale" can be avoided by careful year-round merchandise management.

There are innumerable points of detail which must be watched to assure complete success. The very large store is in a position to plan months ahead; the smaller store executive must, because of constant pressure of work from all sides, do his planning on shorter notice. Whoever is responsible for the work should not neglect the smallest detail in pre-planning.

Use of An Outside Sales Organizer

One moot point in annual and semi-annual sales operation is the employing of an outside sales organizer. Without a specific situation at hand it is impossible to state definitely whether an outside man should be brought in or not. It is safe, however, to point out the advantages and disadvantages of such action. The following often combine to favour the use of outside men: the extra cost of the men is very frequently counterbalanced by extra sales results; the men are specialists; mark-downs are more adequately taken, and the store manager is often incapable of doing the job. It should be recognized, on the other hand, that sales organizers do not work for small fees. (Their fees run from flat salaries to as much as ten per cent of net sales.) They sometimes are prone to use misleading advertising which, though bringing immediate results, is often not to the best interest of the store's long-term position. The outsider often suggests large mark-downs. The use of sales specialists depends, then, upon the situation. It may be recommended when the store manager is weak in the field of special sales events and when a good man is available.

Setting the Goal

Every organization regardless of size should have readily usable figures on past sales by months and by departments. This seems simple, but unfortunately too many retailers are prone to work with only total monthly figures. At any rate, the first step to assure success is to estimate the total sales needed to assure financial success of the venture. There are often pressing bills which must be met to maintain credit standing. If this is so,

it may be necessary to plan for an extra large amount in order to pay off completely these pressing demands. If records of past sales events are available they may be of assistance in setting a goal. With the goal set, the job of planning the details of the event is aided materially. This goal will be kept in mind when advertising schedules, mark-downs and duration of sale are considered.

The Timing

Timing a sale has several aspects. It should take place during the proper time of the year on the proper day of the week, and it should last just long enough. Just after the Christmas season and during the dull summer months are, of course, the most popular periods. The timing of the summer sales presents the most debatable question. Just prior or just subsequent to the general exodus of summer vacationists are considered good times. It has been often found, however, that a properly engineered event will be successful at any time. Store-wide clearance during the peak of the regular season should not take place generally, unless the financial stress is great or it is seen that the store can avoid a large inventory loss only by an unusual effort.

There is no rule of thumb for timing the start of a sale. It should commence on a day when people have money and the natural urge to shop is great. The first days of the sale are important; the store should be crowded and bargains should be prevalent. A satisfied buyer at the outset is a source of important advertising, which if encouraged, will do much to carry sales figures to high levels for an extended period. On the other hand a semi-satisfied customer will hurt rather than help the all-round success of the sale. The lack of complete satisfaction on the part of the customer during the first few days of the sale is probably the reason for many events losing vigour after two or three days of business.

The special drive for sales should be cut short as soon as there is any flagging of consumer interest. This should be done regardless of pre-announcement of time duration. The continuance of an unsuccessful event is costly, brings loss of prestige and has an adverse effect upon the staff. Proper all-round timing is a significant phase of sales engineering.

Advertising

Many decisions must be made regarding advertising. It is upon the shoulders of the advertising man that much of the responsibility of the success for the project rests. The total amount to be spent is a point that is not subject to rule-of-thumb handling. The

purchaser of the advertising must first construct a programme which will come as close to doing the job as possible. If this is too costly or the cost is out of line with the prospective results, pruning should be judiciously done.

Advertising starts on the store premises. The complete interior should be changed. This is done for several reasons: the manager wants the public to believe that he is, for a short period, doing business in an entirely different manner; after the sale is over the consumer is confronted with completely different surroundings, and it is much easier to resume regular business with a minimum loss of prestige when this is done. About all that can be said about interior and window display is that a buying atmosphere must be created.

The mediums by which the message may be carried to the buyer are many. No expense should be spared in the opening announcement. The prestige of the event must first be established. This is usually done by using the best advertising medium available. Subsequent advertising may be done by hand bills or less expensive methods. The size and space at the outset should be as large as the store can afford, to make a proper impression. All too frequently the public is prone to judge the significance of any announcement by the size of space that is used. Large space is one way of telling the consumer that the store itself believes it has a worth-while message to deliver. Such problems as items offered and uses of comparative prices are within the scope of this discussion. In this connection, it must be indicated that all articles offered should have real buying value. A single overpriced item will be a red flag of warning to the customers. With the prevalence of store-wide sales many individuals are calloused and refuse to believe many statements made in sale advertising. This point was definitely established a few years ago when the University of Toledo tested the credibility of special sale advertising. It was found that a mere handful of Toledo consumers believed the usual statements in store advertising.

Descriptions should be full and accurate; no item should be offered unless there is a sufficient quantity, or the public is warned of the limited amount. If the advertising gives the impression of sincerity and the reason for the sale is properly given, comparative prices can probably be avoided. All advertising should be carefully reviewed before going to press.

Keeping the Public Interested

The difficulty of keeping a sale alive is a very real one. During such a time the merchants can

often do things which are not good policy in carrying on a regular business. Last year during a successful sale several unusual things were done which it is believed contributed to the sustained public interest. They were "hour specials"; twenty-five per cent of the space used informed the public of reasons for the sale and so forth; a midnight event, 10 to 12 p.m. selling which was advertised at the local theatre; a special broom sale; a gift with every purchase during the last night of the sale and a rummage sale the week following the sale. If various measures cannot be taken to sustain public interest the whole project should be abandoned.

The Organization and Aftermath

The personnel of the store should be convinced of the value given, and taken into, so far as is practical, the confidence of store management. They should know fully the rules of selling. Under no circumstances should service to the customers be reduced. Many buyers are visiting the store for the first time and every effort should be made to make and keep friends, for in many respects consumers are sampling the offering of the store. The executive can do much to relieve the strain on the staff. Night work should be rewarded and small courtesies to staff members will bring large rewards. The executive should make sure that ample reserve employees are available to assure quick customer service. The store, however, should not be over-staffed. Individual sales are completed with much greater dispatch if the customer feels someone is waiting to be served.

The aftermath of the large sale is a problem in itself. The complexion of the store should be changed as completely as possible after a special selling effort has been completed. If any improvements in the store are needed they should be made at that time. One thing is certain; it must be counted upon that a considerable lull in the volume of the sales will be the order of the day and little if anything can be done to avoid it.

The problem of engineering successful sales is a difficult one. It has been made increasingly difficult during the past three or four years. Many store managers have attempted sales of a month's duration and found business going down to regular levels after three days of good selling. It is, then, increasingly important that everything should be done to avoid mistakes. Much depends upon pure chance and nothing, of course, can be done about this. As much of the planning as possible should be done ahead of time and no one feature of the whole procedure should be neglected.

OPERATING EXPENSES IN THE WHOLESALE GROCERY TRADE IN 1935

Jack G. McDonald

For more than a decade the position of the wholesale grocer in our modern marketing set-up has been in jeopardy. Corporate chains on the one hand, and manufacturers on the other, have brought pressure to bear upon this type of middleman to force him to perform the functions of assembly, selling, distribution, and credit extension, more economically. That this condition has been achieved is evident outwardly at least.

Manufacturers have for a long time been dissatisfied with wholesalers because wholesalers would not put extra selling pressure on any particular manufacturer's line of merchandise. In order to overcome this problem, producers attempted to take over some of the wholesaling functions and to sell their merchandise direct to the retail trade. This tendency lasted for some time but is now lessening. Manufacturers are now turning to more active detailing through wholesalers and to missionary work in order to sell their products, leaving the wholesaler to assemble, sell, distribute and assume the credit risk rather than taking these duties upon themselves. Outwardly at least they have acknowledged the necessity for wholesale distribution.

On the other hand, the corporate chain has taught the wholesaler one of the most costly lessons of his career. During the early period of existence of this type of organization in Canada, the number of wholesale grocery failures was high; since that time it has decreased noticeably. The corporate chain was organized to assume the functions of the wholesaler and the retail outlet. By eliminating some of the wholesale functions and centralizing the remainder, and by purchasing in larger quantities at lower costs, this new type of organization hoped to realize large savings and reap larger profits. The chain stores in Canada have met with considerable success and although in all probability they have fallen short of their desired goal,

at present they account for about thirty per cent of the retail grocery sales. It was this formidable competition that showed the wholesaler his shortcomings and drove him to operate more efficiently and profitably.

As a result of the discovery of these outward indications that internal changes must be taking place a study was undertaken to determine the extent of these changes as reflected by costs of operation.

Method Followed in Study

During the period 1916-1923 the Harvard Bureau of Business Research published an annual bulletin showing the cost of doing business in the wholesale grocery trade. Information for this bulletin was gathered by means of a mail questionnaire in the form of a detailed profit and loss statement. Since this questionnaire is believed to be adequate for the purpose, it was used in this survey with different groupings of some expenses. Accompanying the questionnaire was included an exact explanation of the accounts used in the expense statement, which is presented at the end of this article.

The questionnaire and supplementary explanation were sent to wholesalers operating in Eastern Canada as reported by Mr. S. Vila, Secretary of the Canadian Wholesale Grocers' Association.

The figures used in compiling tables I, II and III were contributed by eight firms whose sales varied from $400,000 to about $4,000,000 annually. All expenses were based upon net sales as 100 per cent. The net sales figure was arrived at in each case by deducting from gross sales the amount of returns and allowances to customers, prepaid freight and express collected from customers. All reports used in the tabulation were adjusted as completely as possible to the original standard form of profit and loss statement.

The expense, profit and stock-turn figures given in the tables are "common figures" arrived at by placing all data on a percentage basis with net sales as 100 per cent; and then grouping the percentages for each item in such a way that the common or most representative figure could be determined. This common figure in each case is the one around which the figures for all of the individual reports tended to centre and is the most reliable for purposes of comparison.

Results of the Study

From the returns it was evident that a great lack of uniformity existed in wholesale grocery accounting procedure, yet the results

were complete enough to permit the construction of our index of the cost of doing business which is shown in table I. Because of lack of detail in accounting methods, total sales force expense, advertising and other selling expenses were combined to show total selling expense. Packing cases and wrapping costs were included in miscellaneous expenses. Outward freight, express and parcel postage and outward truckage were combined. Similarly, office supplies, postage and stationery, telephone and telegraph, and other buying, management and office expenses were classified as other office expenses. The remaining accounts were unchanged.

In the analysis of figures for table I certain tendencies were noticed. Firms doing larger volumes of business and having the highest stock-turns were operating on considerably lower margins than those having smaller sales volumes. Margins varied from 10.06 to 5.88 per cent of sales, while stock-turns based upon cost of goods sold varied from 6.5 to 9.3 times a year. Total operating expenses showed an opposite tendency. Companies doing a larger volume of business were able to keep operating expenses down to a lower percentage of sales than companies doing a smaller volume. These expenses fluctuated from 6.05 to 9.94 per cent.

In order to show operating economies that have taken place since 1923, the Harvard Bulletin was adjusted to a comparable basis and is shown in column 1, table II. In column 2 of this table are presented 1935 operating expenses expressed as a percentage of net sales, and in column 3 is the percentage increase or decrease over the period of twelve years.

Considerable selling economies have been brought about since 1923 as shown by the decrease in selling expenses of .8 per cent. There are several reasons for this. Some wholesalers during this period have eliminated salesmen as far as possible and are at present selling locally by means of telephone and mail. Others have raised their standard of selling efficiency and have localized sales to a great degree. Still a third group has transferred emphasis from private brands to national brands and has thus lessened the necessity for advertising.

The increased amount of office salaries, wages and bonuses, which includes buying, may be explained by the fact that buying has become of greater importance as competition has become more severe. In order to take greatest advantage of favourable markets buyers must have an adequate knowledge of prices, trends and supplies at all times. Consequently, those costs have been increased which are

likely to bring the highest returns.

All other operating expenses show a net decrease of 1.47 per cent. The greatest saving in this group was brought about by a reduction of the total interest expense of 1.17 per cent. This was probably caused by lower interest rates on borrowed capital and, perhaps to some extent, less bank financing for seasonal requirements.

The most interesting facts are revealed by a comparison of gross margins, total expenses, net profits and stock-turn. Gross margins over this period have fallen off 1.62 per cent, while operating economies have been introduced to decrease total expenses by 1.92 per cent. As a result there has been a net increase of .28 per cent in net profits accompanied by a higher rate of stock-turn. This can only mean one thing. Companies are emphasizing large sales volumes, low inventories, and narrow margins in the hope of a high turnover of merchandise and consequent increased net profits. The figures given indicate that companies are more successful in this regard than they were formerly and as a result they are at present better able to withstand the effect of more severe competition than was possible in 1923.

Table III, based upon the percentages shown in table I, presents a typical operating statement in dollars and cents for firms operating at an annual volume between $500,000 and $999,000.

Conclusions

It is evident that during this interval of twelve years the wholesale grocery trade has made encouraging progress and that under diligent management its future success is assured. Gross margins have been lowered considerably. Similarly, operating expenses have decreased, but to a lesser extent. As a consequence, net profits have increased. This tendency towards lower gross margins in 1935 reflects the competitive situation and presumably indicates that under present-day conditions, wholesale grocers must depend for a favourable net profit on the achievement of operating economies, rather than on extensions of gross margins. It is significant that most of the firms having the highest net profit for 1935 were primarily those with total expenses lower than average. Today more than ever before there is a premium on good management and aggressive selling.

TABLE I.

Operating Expenses, Gross Margin, Net Profit, and Stock-Turn in 1935 for Wholesale Grocery Firms in Canada

Net Sales, 100%

		Common Figure
Total Selling Expense		1.95%
Wages of Receiving and Shipping Force		1.12%
Outward Freight and Truckage		.63%
Executive Salaries	2.04%	
Office Salaries, Wages, and Bonuses	.66%	
Total Executive and Office Salaries		2.70%
Other Office Expenses		.31%
Rent		.36%
Heat, Light, and Power		.07%
Taxes		.35%
Insurance		.13%
Repairs		.04%
Depreciation of Equipment		.06%
Total Interest		.33%
Miscellaneous Expenses		.19%
Losses from Bad Debts		.4 %
Total Expense		8.64%
Gross Margin		9.66%
Net Profit		1.02%
Stock-turn		7.5

TABLE II.

Operating Expenses, Gross Margin, Net Profit, and Stock-Turn of Wholesale Grocery Firms in Canada

Net Sales, 100%

		1923		1935		Increase or Decrease
Total Selling Expenses		2.75%		1.95%		— .8 %
Wages of Shipping and Receiving Force		1.2		1.12		— .08
Outward Freight and Truckage		.9		.63		— .27
Executive Salaries	1.0%		2.04%		+1.04%	
Office Salaries, Wages and Bonuses	1.0		.66		— .34	
Total Executive and Office Salaries		2.0		2.70		+ .7
Other Office Expenses		.42		.31		— .11
Rent		.5		.36		— .14
Heat, Light and Power		.08		.07		— .01
Taxes		.30		.35		+ .05
Insurance		.15		.13		— .02
Repairs		.03		.04		+ .01
Depreciation of Equipment		.08		.06		— .02
Total Interest		1.5		.33		—1.17
Miscellaneous Expenses		.25		.19		— .06
Losses from Bad Debts		.4		.4		.0
Total Expenses		10.56%		8.64%		—1.92%
Gross Margin		11.3		9.66		—1.64
Net Profit		.74		1.02		+ .28
Stock-turn		5.9		7.5		+1.6

TABLE III.

Typical Operating Statement for Wholesale Grocery Firms in Canada With Net Sales Between $500,000 and $999,000

Net Sales, 100%

			Common Figure		
Net Sales			$750,000		100%
Gross Margin			72,450		9.66
Total Selling Expenses		$14,625			1.95
Wages of Receiving and Shipping Force		8,400			1.12
Outward Freight and Truckage		4,725			.63
Executive Salaries	$15,300			2.04	
Office Salaries, Wages and Bonuses	4,950			.66	
Total Executive and Office Salaries		20,250			2.70
Other Office Expenses		2,325			.31
Rent		2,700			.36
Heat, Light and Power		525			.07
Taxes		2,625			.35
Insurance		975			.13
Repairs		300			.04
Depreciation of Equipment		450			.06
Total Interest		2,475			.33
Miscellaneous Expenses		1,425			.19
Loss from Bad Debts		3,000			.4
Total Expenses			$ 64,800		8.64%
Net Profit			7,650		1.02%

Stock-turn, 7.5 times.

EXPENSE STATEMENT

Salaries and Wages of Salesforce

Salary of sales manager; salaries and wages of salesmen, including city, travelling, house, and telephone salesmen; parts of salaries of proprietor, partners, or managers proportionate to the time spent in selling.

Commissions and Bonuses to Salesforce

Commissions and bonuses paid to salesmen.

Travelling Expense

Railroad, automobile (upkeep and depreciation), and all other travelling expense that is incurred by salesmen in selling merchandise.

When salesmen are given drawing accounts from which they are paid for salaries and travelling expense combined, the total amounts paid may be included directly in Total Salesforce Expense, instead of in the foregoing separate accounts for salaries and travelling expense.

Total Salesforce Expense

Sum of Salaries and Wages of Salesforce, Commissions and Bonuses to Salesforce, and Travelling Expense.

Advertising

Salary of advertising manager; salaries and wages of employees in advertising department; payments to advertising agents; newspaper, periodical, and street-car space; circulars; house organ; catalogs; price lists; premiums, demonstration expense; electrotypes; signs; posters; advertising novelties; other advertising expense.

Wholesale grocers with large businesses may wish to subdivide this account into separate accounts, for example:

(a) Salaries and Wages of Advertising Force.

(b) Catalogs and Price Lists.

(c) Other Advertising Expense.

Other Selling

Samples; brokerage; house entertainments; any selling expense not otherwise provided for.

Wages of Receiving and Shipping Force

Wages of receiving, warehouse, and shipping force; wages of employees in broken package room; wages of porters; wages of other warehouse and shipping labor.

Outward Freight, Express and Parcel Postage

Expenses borne by the wholesaler for transportation of merchandise to customers, such as freight, express, ferryage, and parcel postage on outgoing merchandise; freight on merchandise returned by customers; marine insurance on outgoing merchandise.

Outward Truckage

Payments to outside firms for truckage or drayage; wages of drivers and their assistants; care of truckage equipment—horses, wagons, and automobiles; taxes on truckage equipment; repairs and depreciation of truckage equipment; hay and feed; gasoline and oil; automobile licenses; rent of stable or garage, whether leased or owned.

If truckage equipment is owned and used for hauling both incoming and outgoing merchandise, when the books are closed the share of this expense that properly should be charged for truckage of incoming merchandise is included in Inward Truckage.

Executive Salaries

Salaries of proprietor, partners, or executive officers of a corporation proportionate to the time given to the general management of the business; salaries and bonuses of buyers.

Office Salaries, Wages, and Bonuses

Salaries, wages, and bonuses of office manager, credit manager, collectors, accountants, private secretaries, bookkeepers, employees in the credit department, office clerks, stenographers, typists, and office boys.

Total Executive and Office Salaries

Sum of Executive Salaries and Office Salaries, Wages, and Bonuses.

Office Supplies, Postage, and Stationery

Postage stamps, stamped envelopes, and postal cards; stationery; typewriter supplies; account books and forms; stock books; record forms; other office supplies.

Parcel postage on outgoing merchandise is not included here, but under Outward Freight, Express, and Parcel Postage.

Telephone and Telegraph

Telephone rentals and tolls; telegrams.

Other Buying, Management, and Office

Legal expense; membership dues in credit associations; subscriptions to mercantile agencies; credit insurance; other expense incidental to the granting of credit and collecting of accounts; auditing expense; travelling expenses of executives, buyers, and managers; any buying, management, and office expense not otherwise provided for.

Rent

Rent of office, warehouse, and other buildings used in the operation of the business whether owned or leased; storage fees.

Rent of stable or garage whether owned or leased is not included here, but under Outward Truckage.

Less all rent received for part of buildings subleased.

When part of the real estate is subleased, Rent is debited with the rent paid for the property as a whole, and credited with the amount received for the part subleased. The debit balance of rent, which is the net rental paid, is the expense that the wholesale business incurs for rent.

In order to place all businesses on the same footing for comparison, rent is included in expense whether the buildings used in the operation of the business are owned or leased. If the buildings are owned, the amount charged as rent is the amount for which they could be leased. Whether the buildings are owned or leased, the real estate charges borne by the wholesaler, consisting of taxes, insurance, repairs, and depreciation, are included in rent and are not entered

under other expense headings, since these items are payments made in lieu of rent. When a leasehold has been purchased, a yearly charge for amortization is included in rent.

One method of estimating the proper amount to charge as rent when both land and buildings are owned is to compute a fair charge for interest, on the investment in land and buildings used in the operation of the business and to add to this amount the taxes, insurance, repairs, and depreciation of this real estate, and also interest on mortgages on owned buildings when the money borrowed is used to complete the purchase price of the property.

Total Net Gain for the year is not affected by charging rent on owned store buildings, as such rent is credited back to the business under Interest and Rentals Earned in the Net Gain Statement.

Heat, Light, and Power

Fuel; light; gas; power; heating; lighting, and power supplies; repairs, maintenance, and depreciation of heating, lighting, and power equipment; other heat, light, and power expense.

Taxes

Taxes on merchandise and on office and warehouse equipment; local licenses; other local, state, and federal taxes.

Do not include taxes on buildings, income, and delivery equipment.

Insurance

Fire insurance on merchandise and on office and warehouse equipment; employers' liability insurance; casualty insurance; fidelity insurance (bonding of employees); burglary insurance; insurance not otherwise provided for.

Do not include insurance on buildings, on delivery equipment, or the lives of partners, when the policies are payable to the business.

Repairs of Equipment

Repairs of fixtures, furniture, and other equipment in office and warehouse.

Do not include amounts paid for new equipment, or repairs of buildings and delivery equipment.

Depreciation of Equipment

A fair estimate of annual loss in value of fixtures, furniture, and other equipment in office and warehouse.

Do not include depreciation of buildings and delivery equipment.

As the equipment grows older it becomes less valuable. This shrinkage or depreciation in value is one of the operating expenses that must be met out of the income of the business. The probable life of the equipment should be carefully estimated and the original cost divided by the number of years that it is expected the equipment will be serviceable. This shows the average amount of yearly depreciation that is to be charged.

Interest on Borrowed Capital

Interest paid on borrowed money and on notes and accounts payable; payments to note-brokers.

Do not include here cash discounts on merchandise, given or received, but enter them under Cash Discounts Taken by Customers and Cash Discounts Received on Purchases of Merchandise.

Interest on Owned Capital Invested in the Business

Interest on the average net investment for the year, exclusive of real estate used in the operation of the business.

Less interest received on bank balances, interest on customers' accounts, and income from investments owned by the business.

Every business should yield the owner interest at a fair rate on the capital that he has invested. This interest charge is considered an item of expense. Since some firms operate to a considerable extent on borrowed funds, whereas others utilize their own capital resources and borrow only small amounts, it is necessary for purposes of comparison to include a charge for interest on owned capital as well as for interest on borrowed capital; thus total interest figures of all businesses reporting to the Bureau are placed on a comparable basis. This item of interest on owned capital is figured on the average net investment for the year—the average of the net

worth at the beginning and end of the year. The net worth is the difference between the sum of the assets of the business (not including real estate, or goodwill unless purchased outright) and the sum of the liabilities (not including capital stock or surplus of a corporation, undivided profits, mortgages on real estate, or reserves that are appropriations of surplus). The rate of interest to be used is the prevailing local rate on long-time, reasonably secure investments.

A corporation determines its net investment in the same way as a proprietorship or a partnership, irrespective of the amount of capital stock issued. The capital stock authorized may or may not equal the net investment; hence, the net investment is determined independently.

This account is credited with interest received on bank balances, income from investments owned by the business, and interest collected on overdue accounts. If interest on overdue accounts is added to customers' invoices, the amount collected is credited here and not included in Net Sales.

Total Net Gain for the year is not affected by charging interest on owned capital invested in the business, since such interest is credited back to the business under Interest and Rentals Earned in the Net Gain Statement.

Total Interest

Sum of Interest on Borrowed Capital and Interest on Owned Capital Invested in the Business, less interest received on bank balances, interest on customers' accounts, and income from investments owned by the business.

Miscellaneous Expense

Janitor service (including cleaning); watchman; demurrage; contributions to charity; periodical subscriptions; dues in trade associations; water, exchange on checks and drafts; theft of money or equipment; premiums on life insurance policies payable to the business; damage and accident expense not covered by liability insurance; all expenses not otherwise provided for.

Packing Cases and Wrappings

Packing boxes, cases, and crates; all packing and shipping supplies, such as shipping tags, twine, paper, excelsior, filler, stencils, nails, and hammers.

Losses From Bad Debts

Losses sustained by the business from the failure of customers to pay their bills. Any collections subsequently made on accounts previously charged off as bad debts are included in Sundry Revenue (Net) and are not deducted from Losses from Bad Debts.

Total Expense

Sum of all expenses shown on the Expense Statement.

Source: Harvard Bureau of Business Research, Bulletin 40.

SOME ASPECTS OF BANKRUPTCY PROCEDURE

FREDERICK O. KIME

BANKRUPTCY is of vital interest to all executives and particularly to credit managers. When a concern receives the official notice of the bankruptcy of one of its customers, the credit manager often decides that it is another account that should be cleared off to bad debts and that, if a dividend is declared, it will be very small. There never seems to be any hope for any dividend once an assignment is made.

This attitude arises because the order of preference is the first difficulty which usually precludes a large return to the ordinary creditor. It is almost impossible for a trustee to pay out any appreciable dividend to ordinary creditors. The landlord, with his lease, is entitled to three months' rent prior to the assignment and generally three months' acceleration rent. The provincial, dominion and municipal departments are entitled to their claims, with penalties compounded. The custodian and the trustee, themselves, are entitled to their expenses and fees. This generally takes up a large percentage of the receipts of any estate.

Since these items must be paid, credit managers should require periodic statements from their clients, showing whether or not these accounts are being looked after. An item, such as accrued liabilities, may be placed on the balance sheet, or, such accounts as rent, public utilities, wages, taxes and workmen's compensation, may be included in the trade liabilities. Thus, it is necessary to have an analysis of these trade liabilities before one is able to arrive at a true picture of the business. If there is an item on the balance sheet of bank loans, a note should be required stating what security the bank holds for the loan. In the case of limited companies, provincial and dominion taxes should also be examined. Balance sheets have become a means for credit managers to base their extension of credit. Balance sheets during the depression have been discussed by many accounting organizations

and the Dominion Companies Act, as amended in 1935, definitely shows the importance of a balance sheet.

When faced with the problem of estimating the possible realizable values of the assets, it is difficult for the receiver to say that the balance sheet does show the true position of a company. The term "accounts receivable" is an ambiguous one. Many treat this as an account in which they include almost anything in the nature of a debt owing to the business, such as advances to directors and salesmen. The inventory may be a large figure and certified as being correct by an official, yet a physical inventory had not been taken in years. In one case, it was found that a business had been carrying an inventory of $32,000. After a physical inventory was taken, it was decreased to $22,000 and upon a further examination of this inventory by an auditor, it was found that because certain equipment had been included by the proprietor, as well as obsolete stock, it should be reduced to $18,000. This man had employed the method of taking an average mark-up, and from an accounting of sales and purchases had arrived at what he thought was the closing value of his inventory. These figures had gone both to the bank and to companies and he had received credit on them. In the same case, old accounts receivable had been continually carried on his books, although they had been placed in the hands of collectors and, in a great many cases, the account had been filed in bankruptcy proceedings and an official statement had been issued stating that no dividend would be declared. This proprietor was always hopeful that some day he would be able to realize on these accounts receivable and he could not see that it was necessary for him to set up a reserve to offset them.

When a bank loan appears on a balance sheet, credit managers should definitely determine what security this bank is holding for this loan. Some bankers take the attitude that they are doing the proper thing for their customer when they endeavour to tie up all his assets. As soon as a rumour is circulated or as soon as the banker sees drafts being returned and N. S. F. cheques being issued, he immediately considers taking over his security. It may be an assignment of book accounts and as soon as he sends out notices and starts to collect these accounts, the business is immediately defeated and credit managers should act quickly by closing up the business. Otherwise, the merchandise will be sacrificed in order to receive sufficient capital to satisfy those creditors who are most insistent.

It often happens that the statements of a business are prepared

by a bookkeeper, who is dependent for his position on satisfying the owner or manager. Again, many auditors prepare statements and qualify them in their reports, but only the balance sheet, without the report, is sent to credit managers. Credit managers can tell in a great many cases that an auditor has been conservative and has been criticized for this by a business man when a statement, signed by another auditor, is presented the following year.

Another important phase of any business is the change from a proprietorship or partnership to a limited company. At this stage the limited company purchases from the proprietorship or partnership the assets and assumes the liabilities of the previous company. In the bill of sale which is drawn up, only the assets that the proprietor or partners wish to transfer to the limited company are included. It may so happen that cars or certain machinery and equipment may be left out and donated to the proprietor or partners. The limited company then sets up on its books a new valuation of its assets. Time is an important factor in a case of this kind, because, once a company has received notification of the new organization, they must upset the change within a stipulated time or the liabilities are transferred to the limited company.

There have been several cases where credit was extended on the understanding that a partnership existed. For example, the name of the concern may be John T. Doe & Son or Jim Roe and Company. It was taken for granted that a partnership existed, but upon an examination it was discovered that invoices were sent out to John T. Doe or Jim Roe and that John T. Doe did not have a son, and his father's name was John L. Doe. When both cases were taken to court, a partnership could not be proven. Moreover, the liquidation costs in the assignment were very high and the result was that the creditors received a very small dividend. It is very important, therefore, that when credit managers are extending credit to a supposedly silent partner they should definitely determine whether or not such a silent partner exists.

Many times, before an assignment is made, the debtor offers a compromise to his creditors. He has endeavoured to obtain sufficient capital because he has seen his position weakening and he does not wish to make an assignment, so he wishes the creditors to accept a certain percentage on the dollar and he will, in turn, carry on his own business. This is a very radical procedure in his mind and it may so happen, after this trying experience and the reports that go with it, that his business will be ruined.

In one specific case, a meeting of creditors was called and an offer was suggested. After giving due consideration the creditors decided that they could not accept the offer, so it was necessary for this business to go into bankruptcy. An offer was duly received from a party and, upon a meeting of the inspectors, it was decided to accept it. The purchaser then incorporated under the original name and started up in business. The auditor kept a close watch on the company's progress and in a few months suggested that it wind up the business. The location of this particular business and the overhead would very soon have placed it in a similar position. At this particular time, there was sufficient to pay off all the creditors, close up the business and still have some cash on hand. If this had not been done, the creditors would have again seen another assignment.

In a similar case, a business was purchased back by the father of the original proprietor. Six months after, the father sold out his business to a new organization because he saw quite definitely that he was losing money and was not capable of running the business. In many cases, where it is continued with the original owners indirectly interested, a business does not seem able to succeed.

Another very interesting case that has arisen during the last two years is that on one location, which is reported to be an excellent one for any business and which was also an attractive store, four businesses have failed. The rent itself is not high; the overhead in general is very nominal; and the proprietors have succeeded in other locations. There were certain factors that were brought up in each particular case, but the location itself was assumed so satisfactory that each concern went to considerable expense in renovations and used up its ready capital and then found that it could not maintain sufficient sales to pay the overhead and creditors.

No doubt a great many credit managers wonder how an assignment can be so easily filed without their knowing that it has happened until they receive the registered notice from the custodian. All that is necessary for a business to go into bankruptcy is that an official of the company see a solicitor and fill out the required forms, showing that the liabilities are greater than the assets and that there is at least \$500 indebtedness. The official receiver in the district is required to take the assignment. Certain duties, such as sending out notices to all the creditors, preparing a list of the assets and the liabilities and from this determining the apparent deficiency, are required of the custodian. At the first creditors' meeting, a trustee and inspectors

are appointed to administer the estate.

The experience of trustees is that a great many inspectors do not take their positions seriously enough. In other words, these inspectors should be sufficiently acquainted with the trade that they can be of great assistance to the trustee. They should also study the particular type of assignment and analyze the best method of realizing upon the assets. For example, if it is a retail store and there is an acceleration clause in the lease, which requires the estate to pay rent for three months after the date of the assignment, it may be advisable to carry on a bankrupt sale and dispose of the assets in this manner, rather than sell it by tender. However, the location of the retail store should be considered in cases of this kind, because, if it is a general store situated in a small town, it may be very difficult to sell the assets, since the customers are going to be people who have continuously gone into this store and who are doubtless acquainted with all the merchandise on the shelves and will only purchase things they require. The result, in cases of this kind, may be that considerable merchandise will be left after the forced sale.

It may be impossible to carry on the business and it may be necessary to advertise by tender, and it is in these cases that the inspectors and creditors themselves can assist the trustee by giving him leads. For example, since it would be too difficult for a trustee to carry on an undertaking establishment, he has to sell out the assets by advertising for tenders. The best prices can be obtained in a sale of this kind, however, if a person who is desirous of starting up in business can be found. He, in turn, realizes the value of the stock and fixtures and will be willing to pay a much higher price than a person who is anxious to move the stock and fixtures to another location after choosing the articles he requires and selling out the balance to other people.

The inspectors should also realize that every offer must be considered. The general principle should be that the first offer is always the best one. When an offer is received shortly after an assignment, the party making that offer has, no doubt, previously studied the business and may have, on some previous occasion, considered purchasing it from the owner, but has hesitated to consult the trustee, anticipating that he would be able to get it at a cheaper rate on the dollar. Because this man is interested, he is the best prospect to sell that business to and will pay the highest price for it. Once a trustee has had certain assets on his hands for several months, it is very difficult for him to make the

sale. He realizes that unless he sells the business very soon it is going to deteriorate and be almost worthless. For example, machinery may be of the type that will become obsolete and it can then be sold only for scrap, whereas, if it had been sold shortly after the assignment, it would have been of use to the manufacturer. In another estate there was a coal-yard among the assets. The consumption of coal and wood in that particular village was only sufficient to warrant two coal-yards, and, as soon as the bankruptcy was announced, several prospects endeavoured to purchase the business from the trustee. The inspectors would not accept the offers, anticipating a higher selling price. Soon, a new business was started, and today the trustee is endeavouring to sell the sheds for scrap lumber, and is ready to donate the land to the village for arrears of taxes. By trying to increase the original offer by fifty dollars, the estate will not net one-fiftieth, because it was not accepted.

A study of statistics of bankruptcy shows the long-time trend to be upward, with peaks occurring after periods of economic stress, such as 1913, 1921 and 1929. The number of bankruptcies over the period remain quite constant, with the exception of the war period. Thus, it can be seen that, besides business conditions, there are important factors, such as lack of capital, wrong business methods, excessive competition, poor location, catastrophies and losses, and changes in demand, which cause failures in the different types of business. Upon an examination of the failures for the period, 1924-1933, percentages are as follows:[1]

Trade	50%
Manufacturing	20%
Service	11%
Others	13%
Not classified	6%

It is also interesting to note that bankruptcies during 1930, 1931 and 1932 did not rise to the heights of 1921, 1922 and 1923. After each depression, lessons will be learned, reserves will be placed away in good hands, strict accounting records will be kept, and stocks and purchases will be watched.

A credit manager has a very important position in any business. It would be interesting to draw up the statistics from the different assignments to find out the ratio of bankruptcies for each particular business house. In going over the books, it has been found that certain houses, who have done business with a great number of firms which have gone into bankruptcy, are very seldom included as creditors when the final list of creditors is prepared. This definitely shows that some houses watch

[1]Source: Dominion Bureau of Statistics.

the credit of their customers much more closely than others. In many cases, it was found that these houses had sensed trouble and were able to have their accounts cleared up prior to the assignment. For example, a printing and publishing house in the city of London has sold to sixty-two of the bankrupt firms that have been wound up by a local trustee. Of these sixty-two bankruptcies, this firm has only been a creditor once.

There seems to be the tendency for governments to increase the exemptions under the "Execution Act," which is necessarily going to require a closer watch by all credit managers. It may also decrease the extension of credit, unless certified statements, which disclose the amount of preferred and secured creditors that are outstanding, are presented periodically.

Credit managers are also adopting certain practices that have previously been carried out only by bankers, such as receiving guarantees up to a certain amount and extending credit only for that amount. They are protecting themselves by carrying out the procedure of selling goods on consignment. This may require considerably more accounting and must be watched very closely, but it has often been successful in protecting the account. Others are having finance companies look after their collections by discounting paper and registering liens against the equipment. Others may receive a specific assignment of certain book accounts. They realize that selling merchandise on credit to a business is the same as advancing certain cash to that business and they are, therefore, entitled to protection for that advance.

As soon as credit managers find that their accounts are not being settled properly, they should protect their interests immediately, because, if any security is given to a creditor within three months of an assignment, it is very easy for other creditors to invalidate such security. The debtor is also more likely to give this security if he wishes further extension of credit and if he is asked frequently for the payment of the outstanding account. As soon as he sees that his stock is becoming very small, he will do almost anything to have that stock increased and will, therefore, give certain security not only for the arrears but also for any new extension of credit.

Individual attention to every account, individual analysis of every statement submitted, and individual reports from the salesmen dealing with the various customers, will afford the credit manager sufficient information, with his knowledge of the law dealing with creditors, to foresee the necessity of an assignment and

the interest of this credit manager in seeing that the proper trustee is appointed to handle the estate will make bankruptcy, when required, an aid not only to the debtor but to the creditors.

THROUGH THE WINDOWS OF THE WORLD

ARTHUR G. DORLAND

Europe in Disintegration and the Race in Armaments

SEVERAL years before the outbreak of the American Revolution, Benjamin Franklin sought to impress upon the disunited and mutually suspicious English colonies the necessity of union by carrying at the head of the paper he published the design of a severed snake with the legend below, "Unite or perish." This motto might well be applied to Europe, which, since its repeated failures to practise the principles of collective security through the League, is experiencing a progressive disintegration of mutual trust and security that threatens the very foundations of European life and society. One of the most apparent evidences of this is the alarming increase in armaments and in preparedness for war, the repercussions of which are being felt to the uttermost parts of the earth.

There is scarcely a nation whose statesmen do not protest that its sole desire is to have peace with every other nation, and yet at the very moment that these words are being uttered, aeroplanes, cruisers and shells are being manufactured, soldiers, sailors and airmen recruited, bombproof shelters constructed and gas masks distributed to civilian populations. In fact, the latest recruit is the Government of Canada, which is planning a substantial increase in its military programme and equipment, principally, it has been claimed, for the purpose of "indirect defense" —i.e., *a military expeditionary force*; while early in February of this year the Government rejected a proposal introduced into Parliament that Canada should keep out of a European war irrespective of its causes.

The published data on European armament are so contradictory and run into such astronomical figures that accurate analysis is difficult; but available information at least provides a basis for comparison which leaves no doubt as to present trends. According to estimates

which were published in Berlin: Japan is spending today exactly twice as much as she spent in 1928 on armaments, France is spending 58 per cent more, Great Britain 39 per cent more, the United States 38 per cent more, while Soviet Russia is credited with an increase in war expenditure of 1,500 per cent during the past eight years. On the other hand, according to an authoritative British source which is credited with exceptional facilities for gathering information in Germany, the military expenditure of the Third Reich for 1936-37 alone is twelve times what was spent in 1934-35.

One of the senseless features of this race in armaments is that it never ends short of disaster, since apparently there is no point at which a nation can rest secure, because it is always being overtaken by a rival. A good example of this is the race for supremacy in the air, in which sphere for several years past Germany has been regarded as being the best equipped. It has been reported, however, that German airplanes operating in Spain, though numerically greater, have been demonstrated as being much inferior both in speed and general performance to the planes provided and operated by Russia, so that at the moment Russia is regarded as having a definite advantage in the air. The heavy increase in German expenditure probably represents an attempt to recover in the air the prestige and ascendancy which, by reputation at least, she enjoyed for years. But meanwhile Great Britain is feverishly building a new air force of formidable proportions. Of course, every nation protests that this monstrous piling up of arms is entirely for defensive purposes. Germany blames Russia and Great Britain for forcing the pace, while they in turn blame Germany. And so the mad race goes on.

Some Dangers of the Race in Armaments

Since the Government of Canada has entered this country in the race, we do well to consider some of the risks that this policy may involve. In the first place past experience has shown that sooner or later a use must be found for these costly accumulations. It is not in human nature to watch excellent arsenals stuffed to the doors with all manner of weapons, or air and water craft equipped with the latest instruments of precision, all going to waste. Ethiopia and Spain provided a convenient testing ground for many of these latest death-dealing devices, and the result has been a general refurbishing and increase of armaments throughout the world and also a

tremendous increase in the general feeling of insecurity.

There is a second grave danger, because sooner or later this tremendous expenditure for unproductive purposes must lead either to national bankruptcy or to a violent attempt to improve conditions by force; for history proves that national bankruptcy, far from being a preventive of war, is too often its principal cause. Today several nations are casting covetous eyes in the direction of lost colonies or of potential new colonies. Incidents are multiplying themselves and almost inevitably war will result. That is to say unless some nation or group of nations has the courage to call a halt, and, facing resolutely in the opposite direction, to strive for some plan of collective security through a reorganized League based on principles of justice and greater economic equality, or for some kind of an international New Deal.

Re-Armament and the Economics of the Totalitarian State

One fears that there is cold comfort for any who view with complacency the race in armaments between a totalitarian state such as Germany and her rivals under democratic forms of government, in the belief that Germany under her present totalitarian economy is so rapidly nearing the end of her resources that the ability of her democratic rivals to out-spend and out-build her will be the decisive factor. This raises a question for which no definite answer can be given at present, because it lies outside any verifiable experience. Can a totalitarian state such as Germany outlast countries like France and Great Britain which are struggling (under democratic forms of government) to keep their feet on the orthodox monetary and economic foundations? While most economists would doubtlessly agree in regarding Germany's present position as fundamentally unsound, this does not necessarily imply that Germany is near collapse or has ceased to be potentially dangerous. There are, for example, several advantages that totalitarian governments possess that are not possessed by democracies like France or by any other government within the capitalist system, such as the dictatorial powers the former exercise over capital, markets and currency, which make it possible for them to keep the brakes on inflation, to create various monetary media, to create substitutes like barter, or to refinance the national debt by transforming bills into what amounts to permanent loans. These methods are not open to democratic governments

within the capitalist system, for with them floating debts cannot be controlled beyond a certain point; while repudiation demands from national credit its own price, which may prove so high as to be ruinous.

Moreover, careful observers point out that the unorthodox practices of the totalitarian state, as exhibited in Germany's "Four Year Plan", are only a means to an end which is political and not economic. Thus the totalitarian state is primarily a means to achieve the ultimate objectives of the National Socialist Revolution, namely, "the union of all Germans in a Greater Germany which will exercise an imperialistic ascendancy and execute its colonizing mission in realms far beyond the present frontiers of the Reich." This conception is clearly set forth in Hitler's book, *Mein Kampf*, which still provides the essential basis of the National Socialist platform. Accordingly, Germans are being asked to accept reduced standards of living as a part of the sacrifice they are to make to achieve the political aims of National Socialism. But obviously these aims cannot be realized without transforming Europe in a manner likely to encounter formidable resistance from a number of states or perhaps from a powerful anti-German coalition. The German National Socialist, therefore, thinks in terms of international war and is preparing for it, just as the Marxian Socialist thinks in terms of a class war and cannot think in any other terms without ceasing to be Marxian. Consequently, many observers feel that the sinister figure of General Ludendorff rather than Hitler is the real driving force behind the policy of National Socialism in Germany today.

If such be the case, it is all the more important for the European countries to take immediate steps to bring Germany at all costs within a reorganized League of Nations, rather than to allow the dangerous tendencies inherent in National Socialism to work out its imperialistic aims by continual threat of war or by war itself. For the day of imperialistic domination is surely past, though unfortunately there is still a large and influential section of the British people which has not renounced imperialism any more than National Socialist Germany. The ideals of economic and political imperialism are the very negation of a sound international order and have been in the past one of the greatest stumbling blocks to an effective League of Nations. The ideals of imperialism, we venture to suggest, belong to a period of individualistic and national his-

tory which the world has outgrown; while much of our present difficulty arises from the fact that in practise we have yet to bring our obsolete international and economic systems into line with these new world developments. The price of our collective failure to do this might well be the disintegration and ultimate collapse of Western civilization.

The Pan-American Conference At Buenos Aires

The Pan-American Conference, or to give its official title—The Inter-American Conference for the Maintenance of Peace—which President Roosevelt opened at Buenos Aires on December 1, was quite in accord with the season of good-will which it so closely preceded, and proved to be more than an empty gesture. But since, so far as the Press and the general public were concerned, *l'affaire* Simpson and the so-called "constitutional crisis" almost completely overshadowed the Conference during its sessions, some reference to its achievements might serve a useful purpose.

No conference of American states, it has been asserted, has ever convened in so cordial an atmosphere, but the Buenos Aires Conference may also claim some solid achievements to its credit as well. For when the Conference adjourned on December 23 it had considered some 115 various projects touching different aspects of inter-American relations and had approved some 69 conventions and recommendations.

Some of the more important political conventions approved by the Conference were: (1) A collective security convention providing for obligatory consultation among the American nations wherever peace is threatened from any source; (2) A neutrality convention obliging American nations to adopt a common attitude as neutrals if war should break out between any two of them; (3) A protocol defining intervention by one nation in the affairs of another as "an unfriendly act," and calling for the use of the peace machinery established for its solution; (4) A declaration of solidarity in which the United States and the other American nations affirm that "any act of an unfriendly nation" towards any American nation is a matter of common concern to all, and that such an act will automatically put in motion the machinery established by the collective security conventions.

The Conference also passed a number of important resolutions, the most important of which was one sponsored by the United States delegation, calling for

equality of treatment in international trade and a gradual reduction of trade barriers. In addition, the Conference passed resolutions dealing with various projects, such as international law, intellectual coöperation, the interchange of professors, students and of publications, citizenship for women, etc.

American Non-Intervention and a New Monroe Doctrine

Perhaps the most solid achievement of the Conference, from the point of view of Latin-America at any rate, was the affirmation by President Roosevelt of the United States' good neighbour policy of non-intervention. This formal abandonment of the big stick policy will go far to wipe out the memory of past extensions of the Monroe Doctrine by which dispatch of United States troops to Nicaragua and to other Latin-American republics was justified. It might be recalled, however, that this policy of non-intervention is nothing new, since it was initiated during the Republican regime of Mr. Hoover which witnessed the abrogation of the treaty right to intervene in Cuba and the recall of the last of the American marines. The same non-intervention policy was re-affirmed by the present Democratic government at the Montevideo Conference of 1933. Thus the non-intervention protocol of 1936 is intended to confirm and make formal a policy which has heretofore been somewhat informal and unofficial.

The other important achievement of the Conference of 1936 was its formulation of what might be termed a new Monroe Doctrine. The Monroe Doctrine, though associated historically with the period when the Latin-American nations gained their independence from Europe with the backing of the United States, has long been unpopular in Latin-America. For though they are willing to concede that the Monroe Doctrine may have protected them from attack and interference from Europe in the early years of their independence, they have recently criticized the Doctrine on two grounds. First, since it is unilateral in character, it was interpreted and applied by the United States alone, if and when it suited the interests of that country. Second, it has been used as a shield for United States' intervention in Latin-America. The new protocol of 1936, however, affirms "that any act of an unfriendly nature" toward an American nation is a matter of concern to all, and that such an act will automatically put in motion the collective machinery established. This provision therefore places the Monroe Doctrine on a multilateral rather than on the former unilateral basis, since it makes the

preservation of the independence and security of the American nations the joint responsibility of 21 American states and not of the United States alone. This enhances greatly the self-respect of the Latin-American nations and gives them a feeling of additional security as well. It has been pointed out, however, that the non-intervention protocol applies only to armed intervention, that is to say, the employment of armed forces, which does not prevent the use of the indirect, less tangible, but sometimes more disastrous forms of intervention known as "diplomatic intervention." The big stick may be laid aside, but will future United States policy be strictly one of "hands off," with no meddling and no manipulating behind the scenes? That still remains to be proved.

A Pan-American League of Nations

Before the calling of the Buenos Aires Conference several of the Latin-American governments proposed consideration of forming an inter-American Court of Justice and an American League of Nations. For various reasons no action was taken at the Conference, though consideration of these proposals is to be included on the agenda of the next Conference, to be held at Lima, Peru, in 1938. One reason for the postponement of action is that, while several of the South American governments have announced their intention of withdrawing from the League of Nations at Geneva, many of them still see certain advantages in retaining their European connection; and membership in two Leagues would be altogether too complicated and expensive. Moreover, membership at Geneva gives them a voice in world affairs which enhances their importance; while this connection also serves as a counterpoise to United States' domination which, in spite of the intervention protocol, may still be asserted through the indirect methods of diplomatic intervention and economic exploitation. Another practical difficulty is that the creation of an American League of Nations would immediately raise the thorny problems of fixing the basis of representation in such a league and adjusting the claims of the small republics for complete equality as against the desire for predominance on the part of the United States and the larger Latin-American republics. For these and other reasons the Latin-American republics are content to let rest for the moment the creation of an American League of Nations, meanwhile trying out what they have gained in the non-intervention and collective security protocols of the last Conference.

The evident elation of most of the Latin-American governments with the results of the Conference has been attributed by some to the fact that the dictatorial governments which now rule in practically all the South American states are inclined to see in Yankee imperialism a protection for themselves against internal uprisings. It is possible that President Roosevelt may have sensed something of this attitude, for he apparently went out of his way to emphasize the American belief in the principles of democracy. It is difficult to say to what extent the ideologies of the Old World have entered into the present day politics of the New, but there has undoubtedly been an infiltration of European political philosophies which have manifested their presence in various social and political movements within the Latin-American republics of today. Broadly speaking, however, the older democratic institutions as originally conceived and based on the liberal political philosophy of the eighteenth and early nineteenth centuries have been largely cast aside, and arbitrary governments under some form of dictatorship predominate throughout Hispanic America today. Whether this will have any important bearing on the formation of a Fascist International it is yet too soon to say. But it is not without significance perhaps that Chile, for example, has recognized the Italian conquest of Ethiopia, and that Nicaragua and Guatemala have recognized the Franco regime in Spain.

Canada and the Pan-American League

While Canada did not participate in the Pan-American Conference, we were assured that a vacant chair is awaiting our representative at any time, and there is a growing feeling in Canada that a League of American Nations is of vital concern to her. There is also a growing feeling in Canada that her geographical position on the North American Continent should be taken more into account in any orientation of Canadian foreign policy. For while British statesmen are very insistent in reminding Canada that the exigencies of Great Britain's geographical position largely determine matters of foreign or of League policy, it is sometimes forgotten that geographical factors are equally important with regard to Canadian commitments to the Empire or to the League of Nations. One may venture to predict that if the League of Nations is not speedily reorganized and made operative as a constructive agency for world peace, and if European nations continue their mad race in armaments which if unabated can

have but one disastrous end, feeling in Canada will become increasingly isolationist as far as the Eastern Hemisphere is concerned and may favour joining a Pan-American League of Nations along with the United States rather than a suicide pact with Great Britain which would involve another European Armageddon.

The Test of Monarchy

While there are those who decry any further discussion of the abdication of King Edward VIII, the refusal to face its implications is neither helpful or wise; though the ultimate results of this episode which shook the Empire-Commonwealth to its very foundations cannot be fully appraised for years to come.

No matter what the form of government—be it monarchial, republication or dictatorial—people generally have the kind of government and rulers that they deserve. Thus, while as a result of the abdication of Edward VIII the question of Monarchy versus Republicanism as desirable forms of government has been revived, the real question it has raised goes much deeper than that of the relative merit of these systems of government; it is a question of character, of personal standards both of rulers and ruled. If we sit in judgment on Edward VIII and condemn him, we condemn ourselves. Edward VIII was a product of the times in which he lived, and his failure reflects the failure of our own age, of ourselves and of our contemporaries. His real introduction to life was during the War years with the Allied Armies in France, where reckless living was an inevitable circumstance of reckless dying, and where men and women tried to forget the agony and cruelty of war by self-indulgence. After the War this desire to forget all in a mad whirl of pleasure became almost a cult, and the Jazz era and the vogue of the so-called Smart Set began. The tragedy of Edward VIII was—as Beverley Baxter has put it—"that he chose his friends from this set; not from the vicious members, but simply from men and women who had lost the power to condemn or reverence anything." Thus the conspiracy of silence of the British Press—well intended but unwise—and the light-hearted comments of the American Press completely misled Edward in believing that his subjects in Great Britain and across the seas would condone what in the sudden shock of revelation they condemned. A hundred years ago this shock would have been barely perceptible. When Queen Victoria came to the throne in 1837, Republican sentiment was strong and growing throughout

Great Britain. But Queen Victoria and George V, by their simplicity, personal integrity, devotion to duty and genuine religious faith have set an example that almost unconsciously has become the standard by which monarchy will be judged.

In the light of this episode, what will be the ultimate test of kingship? In the final test the source of its strength is seen to be "not the length of its history or the pomp and circumstance with which it is surrounded but the character of its occupant. Power is not achieved through brilliance or show or outward compulsion; it comes through a character that rings true, inspires confidence, and sternly sets its face against any paltering with the 'weak and beggarly elements' of the world. Should the occupants of this or any other throne cease to inspire confidence in the hearts of the plain and homely folk among their people, such thrones will ultimately perish".

LEGAL JOTTINGS

CECIL C. CARROTHERS

Doctors and Contempt

THE matter of enforcing the attendance of medical men in civil actions was before Chief Justice Greenshields in Montreal recently. The question is an old one; doctors invariably object to the long delays and wasted time attendant on giving evidence. The physician whose excuse was danger to a patient's life in his absence was fined $40.00. The court told him that only the court could decide the necessity of his being elsewhere when subpoenaed.

Beards and House of David

In a recent action the famed baseball team of the House of David attempted to restrain a rival baseball nine from wearing beards. Among other things the judge said: "The plaintiff complains quite bitterly because the defendant ball players are all required to wear beards like those of the plaintiff players. From time immemorial, however, the wearing of beards has been in the public domain. With respect to matters within that domain all men have rights in common. Any man, so minded, may therefore, without being subject to any challenge legal or equitable, not only grow such beard as he can, but purposely imitate another's facial shrubbery, even to the extent of following such topiary modification thereof as may have caught his fancy. The plaintiff's rights therefore cannot be soundly based merely on the fact that the members of the defendant's team wear beards precisely like the beards of the plaintiff team."

The Smoke-Ball Case Again

As a leading case the Smoke-Ball has again been quoted. In it a lady reading that if she purchased a package of smoke-balls and used them in accordance with directions she would be free of epidemic influenza, believed the advertisement. A reward was offered to anyone who contracted influenza under such circumstances. She won her action and the reward.

Now comes the Letrik Electric Comb. The following advertise-

ment appeared: "New hair in 72 hours. Letrik Electric Comb. Great news for hair sufferers. What is your trouble? Is it grey hair? In ten days not a grey hair left. Five hundred pounds guarantee." Mr. Wood, whose hair was grey, paid three and six for a comb. He used it assiduously according to the directions. The only result was irritation and a sore scalp. His hair remained grey. Action — judgment for plaintiff. Immediate "sell out" of combs by those hoping to get five hundred pounds for an expenditure of three shillings six pence.

Hairdressers, Beware!

A recent case of interest to hairdressing establishments has been reported. The plaintiff was a lady in the habit of bleaching and dyeing her hair. Upon her instructions the defendant gave her a permanent wave. It appears that bleached hair becomes brittle and devitalized. No warning was given to the plaintiff as to the risk attached to a permanent wave of bleached hair. Without testing the defendant put twenty curls into the heaters. The plaintiff's hair came off with the curlers. She recovered damages.

Dangerous Goods

The important provisions of the Sale of Goods Act dealing with the liability of manufacturers and merchants on the sale of dangerous goods has been further clarified by a series of cases here and in England.

Last summer a young lady in Toronto purchased a bottle of chocolate milk, manufactured in Toronto and sold by a retailer. In the bottle were several particles of glass which were drawn up through a straw into her mouth. Examination revealed several chips of glass. Both the retailer and manufacturer were held liable in damages. The merchant was liable on an implied condition that such goods are of merchantable quality. Obviously no examination he might have made would have revealed the glass, without opening the bottle. So far as the manufacturer was concerned, while it was shown he used the utmost care, the court held that obviously that care was insufficient.

Two similar cases recently heard in England dealt with soft drinks containing respectively a mouse and a decayed snail. The injury suffered was shock. Both merchants and manufacturers were held liable.

Based on the same law, a case was decided by the Judicial Committee of the Privy Council. The plaintiff contracted dermatitis from the presence of free sulphite used in the manufacture of underwear. The irritating chemical was found in the cuffs of ankle-length under-

wear. Both retailer and manufacturer were held liable.

The retailer is in the position that, difficult as it may be for him to be able to check the goods he sells, he is liable if they are not free from danger to the purchaser. The obvious protection he has is to deal with reliable manufacturers who will protect him.

Message From the Dead

Many strange provisions are found in wills but surely none stranger than the following excerpt from a will actually probated recently:

"It is my will that $1,000.00 be put at interest for another purpose, to wit:

"In view of and in anticipation of G. T. committing some crime worthy of prosecution, of which he is capable, that it shall be the duty of my said executors to employ said principal and interest if necessary, in employing a lawyer to prosecute him in all civil matters, and if this should be a case that would send him to the penitentiary or stretch his neck no means shall be withheld in prosecuting him to the death as he is a swindler, a liar and scoundrel and hypocrite, and should my executors fail to do this my will, in relation to T. then and in that case they shall forfeit all the interest they have in my said estate as above mentioned." G. T. was the testator's son-in-law!

Street Certificate—Negotiable?

A case of interest to speculators and investors who hold street certificates without registering was decided in Ontario last year. The plaintiff sued a brokerage firm for possession of a stock certificate which he claimed had been stolen from him. The defendant firm had purchased it in the ordinary course of business and had held it for three years. On attempting to register the transfer the broker learned that notice had been given of the loss by the plaintiff, and the registration was refused. It was held that stock certificates, even street certificates, were not negotiable in the sense that bills, notes, etc. were. No one can acquire a better title from the vendor than such vendor had, and the plaintiff was entitled to a return of his certificate.

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